

STATEMENTS OF FINANCIAL POSITION (Notes 1 and 2)

	Dec. 31, <u>2005</u>	Dec. 31, <u>2004</u>
<b>ASSETS:</b>		
Cash in checking account	\$ 94,510	\$ 376,977
Cash in money market fund	102,836	43,334
U. S. Treasury Notes at market value (Note 3)	2,224,363	3,234,741
U. S. Government Agency bonds at market value (Note 4)	4,181,358	4,150,021
Corporate bonds at market value (Note 5)	2,082,628	1,845,624
Accrued interest receivable on investments	94,612	88,944
Equipment – Cost	5,520	5,520
– Accumulated depreciation	<u>(5,520)</u>	<u>(5,520)</u>
<b>TOTAL ASSETS</b>	<b><u>\$8,780,307</u></b>	<b><u>\$9,739,641</u></b>
<b>LIABILITIES:</b>		
Accounts payable	\$ 2,791	\$ 1,219
Estimated claims payable (Note 6)	<u>3,600,000</u>	<u>4,750,000</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$3,602,791</u></b>	<b><u>\$4,751,219</u></b>
<b>NET ASSETS:</b>		
<b>UNRESTRICTED NET ASSETS:</b>		
Class A net assets for general administration	\$ 197,754	\$ 194,346
Equipment net assets – Class A	<u>0</u>	<u>0</u>
Total Unrestricted Net Assets	<u>\$ 197,754</u>	<u>\$ 194,346</u>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Classes B and C net assets for specific insurance company insolvencies (Exhibit A-1)	\$2,462,354	\$2,319,673
Contingency reserve for future obligations (Note 7)	<u>2,517,408</u>	<u>2,474,403</u>
Total Temporarily Restricted Net Assets	<u>\$4,979,762</u>	<u>\$4,794,076</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$5,177,516</u></b>	<b><u>\$4,988,422</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$8,780,307</u></b>	<b><u>\$9,739,641</u></b>

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS FOR SPECIFIC INSURANCE COMPANY INSOLVENCIES

	<u>12/31/05</u>	<u>12/31/04</u>
Class C 7 – First Columbia Life, Louisiana	\$ (4,011)	\$ (15,335)
Class C 11 – Knickerbocker Life, Texas	59,108	58,099
Class C 13 – Life of Indiana, Indiana	28,727	28,236
Class C 20 – Executive Life, California	(6,163,442)	(5,874,870)
Class C 21 – Mutual Security Life, Indiana	6,019,395	5,905,360
Class C 25 – Midwest Life, Louisiana	630,254	632,524
Class C 26 – Guaranty Security Life, Florida	2,520,208	2,469,290
Class C 27 – Mutual Benefit Life, New Jersey	280,780	275,786
Class C 29 – Inter-American Insurance, Illinois	623,468	612,818
Class C 30 – Andrew Jackson Life, Mississippi	(2,100)	(2,064)
Class C 31 – Great Republic Life, California	(2,577)	(2,533)
Class C 32 – Old Faithful Life, Wyoming	104,887	103,095
Class C 33 – Old Colony Life, Georgia	336,642	330,697
Class C 34 – New Jersey Life, New Jersey	57,250	56,195
Class C 36 – Pacific Standard Life, California	(13)	(13)
Class C 37 – Kentucky Central Life, Kentucky	1,058,795	1,042,009
Class C 38 – Consumers United, Delaware	(116,825)	(139,562)
Class C 40 – American Integrity, Pennsylvania	925,142	910,988
Class C 41 – National Heritage Life, Delaware	(108,027)	(106,355)
Class C 42 – Summit National Life, Pennsylvania	176,896	174,276
Class C 43 – Confederation Life, Michigan	(7,302)	(6,679)
Class C 45 – National American Life, Pennsylvania	359,107	353,418
Class C 49 – First National Life, Alabama	(1,343)	(1,320)
Class C 52 – American Standard Life, Oklahoma	(78,969)	(77,275)
Class C 53 – Professional Benefits Insurance, Texas	(3,383)	(3,325)
Class C 54 – Centennial Life, Kansas	(88,768)	(87,613)
Class C 55 – Universe Life, Idaho	(298,721)	(293,750)
Class C 56 – Fidelity Bankers Life, Virginia	(513,738)	(504,988)
Class C 57 – Statesman National Life, Texas	(6,220)	(6,113)
Class C 60 – First National Life Ins. Co. of America, MS (Thunor)	(309,963)	(303,709)
Class C 61 – International Financial Services Life, MO (Thunor)	(9,538)	(8,819)
Class C 62 – National Affiliated Investor Life, Louisiana	(18,173)	(17,863)
Class C 63 – American Chambers Life, Ohio	(1,453,940)	(1,428,058)
Class C 64 – Bankers Commercial Life, Texas	(29,216)	(28,715)
Class C 65 – Reliance Insurance Co., Pennsylvania	(4,603)	(8,317)
Class B 66 – Legion & Villanova Insurance Cos., Pennsylvania	(7,695)	(6,278)
Class B 67 – London Pacific Life, North Carolina	(1,446,640)	(1,709,564)
Class B 68 – State General Life, Texas	<u>(43,098)</u>	<u>0</u>
Total Classes B and C Net Assets for Specific Insurance Company Insolvencies	<u>\$ 2,462,354</u>	<u>\$ 2,319,673</u>

STATEMENTS OF ACTIVITIES (Notes 1 and 2)

	Class A	Classes B & C (Exh. B-1)	Total	
			2005	2004
REVENUES:				
Estate distributions	\$ 29	\$ 67,519	\$ 67,548	\$ 965,841
Insurance premiums received		450	450	0
Investment income – Net (Note 8)	<u>3,379</u>	<u>153,374</u>	<u>156,753</u>	<u>145,767</u>
TOTAL REVENUES	<u>\$ 3,408</u>	<u>\$ 221,343</u>	<u>\$ 224,751</u>	<u>\$1,111,608</u>
EXPENSES:				
Policyholder benefit claims		\$ 645,710	\$ 645,710	\$1,289,267
Assumption reinsurance		393,621	393,621	422,631
Assessments by NOLHGA for expenses	\$ 7,547	44,554	52,101	61,271
Administration & legal fees, & direct expenses	38,886	10,331	49,217	52,839
Dues to National (NOLHGA)	33,687		33,687	34,440
Auditing and accounting fees	3,485		3,485	4,080
Meetings and travel expenses	2,357		2,357	5,543
Bookkeeping fees	2,049		2,049	1,428
Subscriptions and publications	1,229		1,229	1,219
Claims processing services		692	692	0
Teleconferences	564		564	474
Computer services and expenses	557		557	353
Printing, postage, supplies, miscellaneous	388		388	224
Class A general and administration expenses allocated to Classes B and C (Note 9)	<u>(90,749)</u>	<u>90,749</u>	<u>0</u>	<u>0</u>
TOTAL EXPENSES	<u>\$ 0</u>	<u>\$1,185,657</u>	<u>\$1,185,657</u>	<u>\$1,873,769</u>
REVENUES OVER (UNDER) EXPENSES	\$ 3,408	\$ (964,314)	\$ (960,906)	\$ (762,161)
Decrease in estimated claims payable		<u>1,150,000</u>	<u>1,150,000</u>	<u>1,587,748</u>
INCREASE IN NET ASSETS	\$ 3,408	\$ 185,686	\$ 189,094	\$ 825,587
NET ASSETS – BEGINNING OF YEAR	<u>194,346</u>	<u>4,794,076</u>	<u>4,988,422</u>	<u>4,162,835</u>
NET ASSETS – END OF YEAR	<u>\$197,754</u>	<u>\$4,979,762</u>	<u>\$5,177,516</u>	<u>\$4,988,422</u>

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	Balance <u>12/31/04</u>	<u>1/1 – 12/31/05</u> <u>Revenues</u>	<u>Expenses</u>	Balance <u>12/31/05</u>
Class C7 – First Columbia Life, LA	\$ (15,335)			
Estate distribution		\$ 11,431		
Interest expense		(107)		\$ (4,011)
Class C11 – Knickerbocker Life, TX	58,099			
Investment income		1,009		59,108
Class C13 – Life of Indiana	28,236			
Investment income		491		28,727
Class C 20 – Executive Life, CA	(5,874,870)			
Interest expense		(40,673)		
Assumption reinsurance			\$ 393,621	
Assessments by NOLHGA for expenses			34,230	
Administration & legal fees, & direct expenses			2,049	
Allocated general & administration expenses			17,999	
Estimated claims payable decrease			(200,000)	(6,163,442)
Class C 21 – Mutual Security Life, IN	5,905,360			
Estate distribution		11,761		
Investment income		102,715		
Administration & legal fees, & direct expenses			45	
Allocated general & administration expenses			396	6,019,395
Class C25 – Midwest Life, LA	632,524			
Investment income		10,870		
Assessments by NOLHGA for expenses			1,052	
Administration & legal fees, & direct expenses			1,236	
Allocated general & administration expenses			10,852	630,254
Class C26 – Guaranty Security Life, FL	2,469,290			
Estate distributions		8,677		
Investment income		42,973		
Assessments by NOLHGA for expenses			262	
Administration & legal fees, & direct expenses			48	
Allocated general & administration expenses			422	2,520,208

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CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	Balance 12/31/04	<u>1/1 – 12/31/05</u>		Balance 12/31/05
		<u>Revenues</u>	<u>Expenses</u>	
Class C27 – Mutual Benefit Life, NJ	\$ 275,786			
Estate distribution		\$ 649		
Investment income		4,794		
Assessments by NOLHGA for expenses			\$ 9	
Administration & legal fees, & direct expenses			45	
Allocated general & administration expenses			395	\$ 280,780
Class C29 – Inter-American Insurance, IL	612,818			
Investment income		10,650		623,468
Class C30 – Andrew Jackson Life, MS	(2,064)			
Interest expense		(36)		(2,100)
Class C31 – Great Republic Life, CA	(2,533)			
Interest expense		(44)		(2,577)
Class C32 – Old Faithful Life, WY	103,095			
Investment income		1,792		104,887
Class C33 – Old Colony Life, GA	330,697			
Estate distribution		196		
Investment income		5,749		336,642
Class C34 – New Jersey Life	56,195			
Estate distribution		78		
Investment income		977		57,250
Class C36 – Pacific Standard Life, CA	(13)			(13)
Class C37 – Kentucky Central Life	1,042,009			
Investment income		18,101		
Assessments by NOLHGA for expenses			904	
Administration & legal fees, & direct expenses			42	
Allocated general & administration expenses			369	1,058,795

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CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	Balance <u>12/31/04</u>	<u>1/1 – 12/31/05</u> <u>Revenues</u>	<u>Expenses</u>	Balance <u>12/31/05</u>
Class C38 – Consumers United, DE	\$ (139,562)			
Estate distribution		\$ 25,917		
Interest expense		(2,346)		
Assessments by NOLHGA for expenses			\$ 100	
Administration & legal fees, & direct expenses			75	
Allocated general & administration expenses			659	\$ (116,825)
Class C40 – American Integrity, PA	910,988			
Estate distribution		244		
Investment income		15,818		
Assessments by NOLHGA for expenses			675	
Administration & legal fees, & direct expenses			126	
Allocated general & administration expenses			1,107	925,142
Class C41 – National Heritage, DE	(106,355)			
Estate distribution		176		
Interest expense		(1,848)		(108,027)
Class C42 – Summit National Life, PA	174,276			
Investment income		3,025		
Assessments by NOLHGA for expenses			288	
Administration & legal fees, & direct expenses			12	
Allocated general & administration expenses			105	176,896
Class C43 – Confederation Life, MI	(6,679)			
Estate distributions		554		
Interest expense		(120)		
Assessments by NOLHGA for expenses			1	
Administration & legal fees, & direct expenses			108	
Allocated general & administration expenses			948	(7,302)
Class C45 – National American, PA	353,418			
Estate distributions		170		
Investment income		6,135		
Administration & legal fees, & direct expenses			63	
Allocated general & administration expenses			553	359,107

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CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	Balance 12/31/04	1/1 – 12/31/05 Revenues	Expenses	Balance 12/31/05
Class C 49 – First National Life, AL	\$ (1,320)			
Interest expense		\$ (23)		\$ (1,343)
Class C52 – American Standard Life, OK	(77,275)			
Estate distributions		4		
Interest expense		(1,346)		
Administration & legal fees, & direct expenses			\$ 36	
Allocated general & administration expenses			316	(78,969)
Class C53 – Professional Benefits, TX	(3,325)			
Interest expense		(58)		(3,383)
Class C54 – Centennial Life, KS	(87,613)			
Estate distributions		365		
Interest expense		(1,520)		(88,768)
Class C55 – Universe Life – ID	(293,750)			
Estate distributions		133		
Interest expense		(5,104)		(298,721)
Class C56 – Fidelity Bankers Life, VA	(504,988)			
Estate distributions		26		
Interest expense		(8,776)		(513,738)
Class C57 – Statesman National Life, TX	(6,113)			
Interest expense		(107)		(6,220)
Class C60 – First National Life Ins. Co. of America, MS (Thunor)	(303,709)			
Interest expense		(5,288)		
Assessments by NOLHGA for expenses			262	
Administration & legal fees, & direct expenses			72	
Allocated general & administration expenses			632	(309,963)
Class C61 – International Financial Services Life, MO (Thunor)	(8,819)			
Interest expense		(161)		
Administration & legal fees, & direct expenses			57	
Allocated general & administration expenses			501	(9,538)

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CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/04</u>	<u>1/1 – 12/31/05</u> <u>Revenues</u>	<u>Expenses</u>	<u>Balance</u> <u>12/31/05</u>
Class C62 – National Affiliated Investor Life, LA	\$ (17,863)			
Interest expense		\$ (310)		\$ (18,173)
Class C63 – American Chambers Life, OH	(1,428,058)			
Estate distribution		1,042		
Interest expense		(24,831)		
Assessments by NOLHGA for expenses			\$ 420	
Administration & legal fees, & direct expenses			171	
Allocated general & administration expenses			1,502	(1,453,940)
Class C64 – Bankers Commercial Life, TX	(28,715)			
Interest expense		(499)		
Assessments by NOLHGA for expenses			2	(29,216)
Class C65 – Reliance Insurance Co., PA	(8,317)			
Estate distribution		6,096		
Interest expense		(147)		
Assessments by NOLHGA for expenses			4	
Administration & legal fees, & direct expenses			228	
Allocated general & administration expenses			2,003	(4,603)
Class B66 – Legion & Villanova Insurance Cos., PA	(6,278)			
Interest expense		(125)		
Administration & legal fees, & direct expenses			132	
Allocated general & administration expenses			1,160	(7,695)
Class B67 – London Pacific Life, NC	(1,709,564)			
Interest expense		(20,895)		
Policyholder benefit claims			642,174	
Assessments by NOLHGA for expenses			5,179	
Administration & legal fees, & direct expenses			1,924	
Allocated general & administration expenses			16,904	
Estimated claims payable decrease			(950,000)	(1,446,640)

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CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	Balance 12/31/04	1/1 – 12/31/05 Revenues	Expenses	Balance 12/31/05
Class B68 – States General Life, TX	\$ 0			
Premiums		\$ 450		
Interest expense		(366)		
Policyholder benefit claims			\$ 3,535	
Claims processing services			693	
Assessments by NOLHGA for expenses			1,166	
Administration & legal fees, & direct expenses			3,862	
Allocated general & administration expenses			33,926	\$ (43,098)
Class B Contingency Reserve – Life	1,144,632			
Investment income		19,894		1,164,526
Class B Contingency Reserve – Health	1,329,771			
Investment income		23,111		1,352,882
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b>\$4,794,076</b>	<b>\$ 221,343</b>	<b>\$ 35,657</b>	<b>\$4,979,762</b>
Per Exhibit B:				
Total expenses			\$1,185,657	
Decrease in estimated claims payable			(1,150,000)	
			\$ 35,657	

STATEMENTS OF CASH FLOWS (Notes 1 and 2)

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:</b>		
Increase in net assets per Exhibit B	\$ 189,094	\$ 825,587
Adjustments to reconcile increase in net assets with net cash used for operating activities:		
Realized net (gain) loss from sale of investments	117,917	(41,036)
Unrealized market loss on investments	124,295	327,893
Increase in accrued interest receivable	(5,668)	(8,149)
Increase in accounts payable	1,572	225
Decrease in estimated claims payable	(1,150,000)	(1,587,748)
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<b>\$ (722,790)</b>	<b>\$ (483,228)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	\$ 2,250,105	\$ 1,815,714
Purchase of investments	(1,750,280)	(1,729,506)
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>\$ 499,825</b>	<b>\$ 86,208</b>
<b>CASH AND MONEY MARKET FUND:</b>		
Decrease during year	\$ (222,965)	\$ (397,020)
Balance at beginning of year	<u>420,311</u>	<u>817,331</u>
Balance at end of year	<u>\$ 197,346</u>	<u>\$ 420,311</u>
<b>Balance at end of year</b>	<b><u>12/31/05</u></b>	<b><u>12/31/04</u></b>
Cash in checking account	\$ 94,510	\$ 376,977
Cash in money market fund	<u>102,836</u>	<u>43,334</u>
	<u>\$ 197,346</u>	<u>\$ 420,311</u>

See accompanying notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 – ORGANIZATION

Nebraska Life and Health Insurance Guaranty Association is a nonprofit, unincorporated association organized and established by the Nebraska Life and Health Insurance Guaranty Act, Sections 44-2701 through 2720, R.S. Supp. 1975, which provides for the creation of an association of member insurers to enable the guaranty of payment of benefits and the continuance of coverage of life insurance policies, health insurance policies, annuity contracts and supplemental contracts. Any insurer licensed to issue life and health insurance policies, and annuity and supplemental contracts in the State of Nebraska is required to be a member.

Association members may be assessed for assessments as follows:

Class A – Assessments for administration expenses of the Association.

Class B – Assessments to cover insurance benefit claims and expenses of domestic (Nebraska) and foreign (other than Nebraska) insurance companies with policyholders in Nebraska that are declared insolvent by the State Department of Insurance.

Effective September 1, 2001, Class C assessments were eliminated by amendment of Nebraska Revised Statute Section 44-2708. Therefore, both domestic and foreign insolvencies are now funded by Class B assessments.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Separate accounts are maintained by type of assessments and by insurers. Interest income and gains or losses on investments are allocated to the respective accounts based on the average quarterly balances of each respective account. Accounts with average positive balances are credited with their allocable share of investment income, and accounts with average negative balances are charged with interest expense on their average deficit balance.

Class A general and administrative expenses are allocated to Class B and Class C insolvencies based on time spent by administrative personnel on the specific insolvencies.

Cash in the checking account and the cash in the money market fund are maintained at high-quality financial institutions. Management believes the Association is not exposed to any significant credit risk on the cash in the checking account and cash in the money market fund.

Investments in debt securities are measured at fair value in the statements of financial position. Unrealized gains or losses are included in the statements of activities. Fair value is based on quoted market prices.

Financial instruments that potentially expose the Association to concentrations of credit and market risk consist primarily of investments. The Association's investments do not represent significant concentrations of credit risk. Financial instruments are not held for trading purposes.

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## NOTES TO FINANCIAL STATEMENTS

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The cost of equipment is capitalized and depreciated over five to seven years by the straight-line method.

The Association is a nonprofit, unincorporated entity of the State of Nebraska, and therefore, no income tax returns or return of organization exempt from income tax are required to be filed.

### NOTE 3 – U. S. TREASURY NOTES

U. S. Treasury Notes owned as of December 31, 2005, were as follows:

<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
U. S. Treasury Notes:					
3/19/02	\$1,000,000	\$1,000,156	\$1,001,020	5/15/06	4.625%
9/29/05	250,000	249,492	248,263	9/30/07	4.000%
2/03/03	1,000,000	999,687	975,080	11/15/07	3.000%
	<u>\$2,250,000</u>	<u>\$2,249,335</u>	<u>\$2,224,363</u>		

### NOTE 4 – U. S. GOVERNMENT AGENCY BONDS

U. S. Government Agency bonds owned as of December 31, 2005, were as follows:

<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Federal Home Loan Banks:					
10/10/02	\$ 250,000	\$ 271,105	\$ 250,078	1/20/06	5.370%
10/10/02	250,000	259,985	249,375	5/30/06	4.015%
9/27/02	250,000	263,225	249,610	5/21/07	4.650%
11/17/03	300,000	319,200	302,157	10/14/08	4.925%
9/22/03	300,000	323,935	305,625	11/10/08	5.385%
1/27/04	300,000	333,354	311,343	3/16/09	5.950%
Federal Home Loan Mortgage Corp.:					
3/18/02	550,000	577,087	558,250	12/13/06	6.400%
3/18/02	450,000	476,892	457,173	1/05/07	6.700%
Federal National Mortgage Association:					
12/27/05	570,000	569,306	569,464	1/15/06	2.000%
12/30/05	100,000	99,345	99,345	5/3/06	2.350%
10/20/04	300,000	309,681	299,250	10/15/06	4.375%
5/18/04	300,000	287,724	287,343	2/15/09	3.250%
6/10/05	250,000	246,675	242,345	2/25/09	3.660%
	<u>\$4,170,000</u>	<u>\$4,337,514</u>	<u>\$4,181,358</u>		

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5 – CORPORATE BONDS

Corporate bonds owned as of December 31, 2005, were as follows:

<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Abbot Laboratories Notes:					
1/14/03	\$ 300,000	\$ 334,368	\$ 306,162	3/15/08	6.000%
Berkshire Hathaway Financial Corp.					
12/27/05	250,000	245,083	244,670	7/2/07	3.400%
Eli Lilly & Co. Global Notes:					
12/17/02	300,000	324,389	301,320	7/15/06	5.500%
Fifth Third Bank Cincinnati OH Notes:					
10/19/04	300,000	298,845	292,482	1/30/07	2.700%
General Electric Capital Corp. Notes:					
10/11/02	300,000	312,753	300,843	6/15/07	5.000%
Pfizer, Inc. Notes:					
12/29/05	50,000	50,038	50,038	2/1/06	5.625%
Procter & Gamble Co. Notes:					
4/15/03	300,000	317,208	296,563	8/15/08	4.300%
Wal-Mart Stores, Inc. Notes:					
11/21/05	300,000	290,341	290,550	1/15/10	4.000%
	<u>\$2,100,000</u>	<u>\$2,173,025</u>	<u>\$2,082,628</u>		

### NOTE 6 – ESTIMATED CLAIMS PAYABLE AS OF DECEMBER 31, 2005 AND 2004

<u>Insolvency</u>	<u>12/31/05</u>	<u>12/31/04</u>
Class C20 – Executive Life, CA	\$3,600,000	\$3,800,000
Class B67 – London Pacific Life, NC	0	950,000
	<u>\$3,600,000</u>	<u>\$4,750,000</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7 – CONTINGENCY RESERVE FOR FUTURE OBLIGATIONS

On April 8, 1999, the Board of Directors approved that net asset balances held for certain settled insolvencies be transferred to a contingency reserve for future Class B obligations of the Nebraska Life and Health Insurance Guaranty Association.

Exhibit B-1 (Page 10) presents an accounting of the Class B contingency reserves for the year 2005. The net asset balances of the contingency reserves were as follows:

	<u>12/31/05</u>	<u>12/31/04</u>
Contingency reserve for future obligations – Life	\$1,164,526	\$1,144,632
Contingency reserve for future obligations – Health	<u>1,352,882</u>	<u>1,329,771</u>
	<u>\$2,517,408</u>	<u>\$2,474,403</u>

### NOTE 8 – INVESTMENT INCOME – NET

	<u>2005</u>	<u>2004</u>
Income received on money market funds	\$ 16,720	\$ 5,719
Interest earned on debt securities	391,151	436,790
Realized net gain (loss) from sale of debt securities	(117,917)	41,036
Unrealized market loss	(124,295)	(327,892)
Investment management fees	<u>(8,906)</u>	<u>(9,886)</u>
	<u>\$156,753</u>	<u>\$145,767</u>

### NOTE 9 – CLASS A GENERAL AND ADMINISTRATIVE EXPENSES ALLOCATED TO CLASSES B AND C

Class A general and administrative expenses were allocated to Classes B and C insolvencies based on time spent by administrative personnel on the specific insolvencies. This procedure is in accordance with accounting guidelines recommended by the National Organization of Life and Health Insurance Guaranty Associations.

Time spent was determined by the administration and legal fees paid to the Cline, Williams Law Firm, who perform the administration of the Nebraska Life and Health Insurance Guaranty Association. The Cline, Williams Law Firm submits monthly billings for their services for each insolvency.